

Financial Assets

Tax and Savings Asset Building Mechanisms

Financial assets stabilize working families.

Many programs and policies focus on improving low wage workers' financial asset base. As an employee's financial outlook improves, he or she can then enhance the other assets discussed in this guidebook, such as improved transportation, more consistent child care, or better housing, all of which in turn, improve employee performance on the job. However, two dynamics challenge a low-wage worker's ability to improve his or her financial assets.

1) Low usage of financial services inhibits ability to build assets.

High interest rates of financial services for low income people inhibit their ability to save earnings and build financial security.¹³ For example, lower-income consumers are much more likely than higher income consumers to pay high prices to cash checks and take out short-term loans. The Brookings Institution found that customers in large metropolitan areas who lack a banking account could be charged \$5 to \$10 to cash a check. Essentially, workers lose money every time they have to pay a check cashing service to access their paychecks. Furthermore, tax preparation and return services tend to charge exorbitant interest rates for refund anticipation loans, which lower income people are three times more likely to buy.¹⁴

2) Tax credits and tax refunds are underutilized by low income families

"To spur savings, the federal government provides tax breaks of roughly \$150 billion a year, mostly for contributions to IRS and 401(k) plans. Low-income workers don't benefit because they don't earn enough to pay income taxes."¹⁵ Tax credits only reduce the income tax a person owes; therefore, a tax credit is useful only if a person owes taxes. On the other hand, a tax refund represents a return of actual cash to the person even if he or she owed no taxes.

According to the Center on Budget and Policy Priorities, employers can play a key role in helping employers access the tax credits and refunds available to them. Workers may fail to take advantage of tax credits because:¹⁶

- Workers are unaware of the credits or if they qualify for them.
- Workers may lack experience in filing taxes.
- Workers may be unaware that free tax filing assistance is available.

As a result of these dynamics, a number of asset building strategies target financial health and tax strategies: basic banking skills, tax refunds and credits, and long term savings for education or home ownership. The following section delves into these various strategies.

Asset Building at Work Financial Assets: Dunnage Engineering

Dunnage Engineering's retirement plan includes a 401(k) and Profit Sharing Plan. Dunnage offers a 50 percent match for the 401(k) up to \$1,000 per year. Says Janet Joseph, co-owner, "We strongly advise our employees that a retirement savings of \$2,000 per year will give them a solid retirement savings, so our match encourages them to contribute the \$2,000."

The Dunnage plan offers security and future assets for employees and also allows them to borrow 50 percent of their vested balance at any given time. Employees have used this loan program for down payments on big ticket items

(Continued on Pg.16)

¹³"Maximizing Personal Potential for National Prosperity: A Blueprint for Changing the Way This Country Thinks About and Addresses Poverty." Office of Community Services. Department of Health and Human Services. Washington D.C. May 2005.

¹⁴Fellowes, Matt. *From Poverty, Opportunity: Putting the Market to Work for Lower Income Families*. Urban Institute. July 2006.

¹⁵Calmes, Jackie. "Saving Incentives for all Income Levels." *Wall Street Journal*. January 22, 2006.

¹⁶"Strategies for Promoting Tax Credits for Working Families." Center on Budget and Policy Priorities. 2006.

Financial Assets

REFUNDABLE TAX CREDIT: EITC

What is it?

The Earned Income Tax Credit (EITC) is a refundable income tax credit for low-income workers and families administered through the IRS. Individuals who have earned income and filed tax returns are eligible. Even workers whose earnings are too small to owe taxes are eligible to receive the EITC. The maximum credit is \$4,300; actual credit received is dependent upon the number of qualifying children and marriage status.

For more information on eligibility criteria visit www.michiganeitc.org or www.irs.gov/pub/irs-pdf/p596.pdf.

How does access to the EITC build your employee's stability?

An EITC improves a family's financial outlook. According to the Michigan EITC Statewide Initiative, families use their refunds for short term needs such as paying bills and for long term investments in their own skill set, such as paying for training or education.

According to the General Accounting Office, Michigan's EITC-eligible workers left nearly \$400 million dollars unclaimed in 2002. A Michigan State University study of a four-county collaborative initiative targeted at raising EITC claims found that the initiative raised household income in all sites. "Adjusted gross income increases ranged from 13.7 percent to 17.5 percent per site, with an average of 14.5 percent."

What you can do:

- Share information with your employees about filing their taxes and applying for the EITC.
- Include paycheck stuffers in your payroll or W2 envelopes about the EITC.
- Display tax credit information in prominent places at the workplace, such as the employee break room or via computer screensavers.
- Tell your employees about free tax preparation services or host such an event at your place of work.
- Encourage employees to file for the EITC free of charge on the I-CAN! EITC website.
- Partner with local organizations to run a local EITC campaign.

For ready-to-use tools:

- Visit the Michigan EITC statewide initiative at www.michiganeitc.org to access payroll stuffers, find out more about free tax preparation sites, and how to run an EITC campaign.
- Access the "Make Tax Time Pay" materials on tax credits for working families produced by the Center for Budget and Policy Priorities at www.cbpp.org.
- Download the "Money Back in Michigan" toolkit for information and tips from the Michigan League for Human Services at www.milhs.org- budget and tax.

Asset Building at Work Financial Assets: Peckham EITC

Peckham has been helping employees access the EITC and other tax credits for years. At first, Peckham worked with IRS VITA volunteers to provide free tax preparation services. Once Peckham installed its own computer lab, however, Peckham staff took on a much more active role. Now, its accounting staff volunteers their staff time to help Peckham team members file their taxes directly at the computer lab. Says Greta Wu, Director of Human Services, "We are helping our team members on the path to self-sufficiency—they do the filing themselves and we are here to help them when needed." Result: More than 150 Peckham team members have taken advantage of this opportunity.

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Financial Assets

REFUNDABLE TAX CREDIT: Child Tax Credit

The child tax credit is a reduction in tax liability via both credit and refund after a certain earnings threshold is met. Currently, the refund is capped at \$1,000 per qualifying child. Low-income households can claim the credit as a refund equal to 15 percent of any earnings over \$11,000, up to the maximum amount. It is possible to be eligible for a credit of \$1,000 but receive less than this amount as a refund due to the refund formula. However, for families that have earnings below \$11,000, no refund is available.¹⁷

REFUNDABLE TAX CREDIT: Child and Dependent Care Tax Credit

This tax credit reduces tax liability via a credit only for certain child or dependent care expenses related to working or looking for work. The credit can also be applied to costs associated with caring for a spouse or adult dependent who is incapable of caring for himself or herself. Families can claim up to \$3,000 in care for one child or dependent and up to \$6,000 for more than one child or dependent. Eligible families then receive a credit between 20 to 35 percent of these expenses, depending on their income level.

Employer Benefit

Just like the EITC, an influx of cash or reduction of tax liability represents a financial asset for a worker. Employees can then apply these monies to building additional assets such as long term savings, safer housing or improving their own skills.

What you can do:

Share information with your employees about filing their taxes and applying for these tax credits.

- Include paycheck stuffers in your payroll or W-2 envelopes.
- Display tax credit information in prominent places at the workplace, such as the employee break room or computer screensavers.
- Tell your employees about free tax preparation services or host such an event at your place of work.
- Get involved in an EITC campaign, which also covers these tax credits.

For ready-to-use tools:

- Access the “Make Tax Time Pay” materials including handouts, fliers, payroll stuffers in Spanish and English from the Center on Budget and Policy Priorities at www.cbpp.org.
- Download the “Money Back in Michigan” toolkit for information and tips from the Michigan League for Human Services at www.milhs.org — budget and tax.

¹⁷Burman, Leonard E., and Laura Wheaton. “Who Gets the Child Tax Credit?” Tax Notes, October 17, 2005. www.taxpolicycenter.org

Financial Assets

Individual Development Accounts: Matched Saving Accounts

Individual Development Accounts (IDAs) are matched savings accounts that low- to moderate-income workers can use to help them acquire an asset such as a home, education or advanced job training, or small business that will help their household become more financially stable. IDA programs are more than just down payment assistance or scholarships—they include financial management training, budgeting, credit building and repair, and training specific to helping the IDA saver learn how to best shop for, purchase, and retain the asset of his or her choice.

Once program participants have completed the program, their savings of up to \$1,000 is matched by the MI IDA Partnership at a ratio of 3:1 for a home purchase and 2:1 for post-secondary education/job training or to start or expand a small business. The match to the IDA saver comes from donations to the IDA partnership, not the employer.

Employer Benefits

- Is an effective recruitment tool.
- Reduces hiring and training costs through long-term retention.
- Provides a tax deduction on an employee benefit.
- Improves employee morale and loyalty.
- Enhances reputation as “family friendly” or “community minded.”

Employee Benefits

- Assists families in accessing affordable housing.
- Facilitates paying for advanced training and education.
- Helps improve household budgeting skills.
- Makes more discretionary income available since many mortgages cost less than rent.
- Increases job satisfaction.
- Potentially reduces commuting time because employees can afford to live closer to their work site.

What you can do:

- Join an IDA program as an employer partner.
- Donate a financial match to your employees who are participating in an IDA program.
- Provide free office space to host financial management classes.
- Communicate information about local IDA programs to your employees.

For ready-to-use tools:

Visit the Michigan IDA Partnership website at www.cmif.org/IDA. Alternatively, contact the Michigan IDA Partnership at (734) 542-3951 or email Susan Lindson, Program Coordinator, at slindson@earthlink.net.

Financial Assets

MESP: Michigan's 529 College Savings Program

The Michigan Education Savings Program (MESP) is a type of 529 savings program for higher education and college. 529 refers to Section 529 of the Internal Revenue Code. 529 plans are tax-advantaged programs that help families save for college. Individuals make after tax deposits into their accounts to fund future higher education expenses such as tuition, fees, books, supplies and equipment. The earnings are exempt from federal income tax and Michigan income tax.

The Michigan Department of Treasury administers the MESP. MESP is managed through employer payroll deduction and requires no W-2 adjustments or 5500 administration on the employer's side.

Employer Benefits

- Provides a consistent method for employees to save for college at no cost to the employer.
- Easy to manage and set up.
- Can be part of overall benefit plan offered to employees.

Employee Benefits

- **Earnings Grow Tax-deferred**
When employees contribute to MESP, their account earnings grow federal and Michigan income tax-deferred until withdrawn.
- **Earnings Used to Pay for Qualified Higher Education Expenses Are Tax-Free**
Earnings on any distributions used to pay for qualified higher education expenses will be free from federal and Michigan income tax. (The law allowing federal income tax-free qualified withdrawals is set to expire December 31, 2010. Congress may or may not extend this law beyond this date.)

- **Michigan Income Tax Deduction**

Employees may also be eligible for a Michigan income tax deduction. The amount contributed by a Michigan tax payer to MESP accounts during a tax year, less the amount of any qualified withdrawals from those accounts during that tax year, is deductible from Michigan adjusted gross income in an amount not to exceed \$5,000 for a single return or \$10,000 for a joint return for that tax year.

How employers can get involved:

- Call MESP at 1-877-861-MESP to set up the MESP program.
- Partner with MESP to provide financial education to your employees.

For ready-to-use tools:

Visit the MESP website at www.misaves.org/faq/employers.html.

Asset Building at Work

Financial Assets: Dunnage Engineering (Continued from Pg.11)

such as homes and auto purchases. For example, one employee took out a loan to purchase a car for her daughter so the daughter could get a better job — a great example of family asset building.

Results: Dunnage has an extremely low turnover rate for employees with more than one year of service. The company's management feels that the teamwork and efficiency that employees gain from the profit sharing plan has contributed to improved productivity.

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